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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 000716

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COMMERCE FOR MARK SIEGELMAN

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TAGS: [ECPS](#) [PGOV](#) [ETRD](#) [HO](#)
SUBJECT: AUDIT OF GRAY TRAFFIC AT HONDUTEL REVEALS
SIGNIFICANT LOSSES

REF: A. TEGUCIGALPA 526
[1](#)B. TEGUCIGALPA 674

Classified By: Charge D'Affairs Andrea Brouillette-Rodriguez, E.O. 1295
8 reasons 1.4(b) and (d)

[1](#)1. (C) Summary: An audit of state-run telecom company Hondutel and its alleged involvement in illegal "gray trafficking" of international calls was completed by a World Bank-sponsored consultant this week and is now in the hands of the Supreme Accounting Tribunal (TSC - the Honduran equivalent of the U.S. Government Accountability Office). Among the major findings of the report, which surveyed accounting and finance records from 2005 and 2006, was that as much as USD 28.8 million in 2005 losses could be attributed to "gray trafficking" - the practice of disguising international calls as local calls to embezzle revenue. The director of audits at the TSC is traveling and is not expected to review the report or make decisions about its release until late this week. Post will monitor its release, as publication of the audit could have far reaching political implications similar to those after the electricity sector audit (reftel A). Both of those audits were key elements of the Honduran Government's corruption remediation plan, which it drafted after it failed the 2007 MCC corruption indicator. The audit comes as controversy simmers over a possible a resumption of debate on the telecommunications reform bill. End Summary.

[1](#)2. (C) An audit of state-run telecom company Hondutel and its alleged involvement in gray trafficking was completed by a World-Bank sponsored independent auditor this week and is now in the hands of the Supreme Accounting Tribunal (TSC). Working with the Federal Communications Commission (FCC), post provided official 2005 and 2006 call data to the auditor for comparative purposes. The major conclusions of the report are:

- a. International call termination rates to Honduras of more than USD 0.20 per minute are more than twice the next highest rate in Central America. This rate presents a significant financial hardship for international callers, the vast majority of which are Honduran citizens calling family from abroad.
- b. The sizeable disparity between international call termination rates and local rates presents a substantial incentive for gray trafficking, which is disguising international calls as if they were local in order to embezzle the difference between rates.
- c. In 2005, the last year for which international data are

available, the report concludes that Hondutel underreported up to 144 million minutes, at a value of USD 28.8 million. d. During the audit process, Hondutel itself attributed revenue losses of USD 58 million in 2006 compared to 2005 to direct competition with mobile operators, reduction of international rates and internal accounting losses. The final report, in addition to revealing the high level of estimated gray trafficking, recommends Hondutel make reforms in order to become more competitive, including offering competitive rates, making technological improvements to improve service and exploring ways to expand fixed-line internet services.

¶3. (U) It appears that Hondutel may already working with the United Nations Development Program (UNDP) to take steps to follow recommendation (d), by issuing a International Competitive Bid Process for a nation-wide IP network. Post received notification from UNDP July 30 that the invitations to bid will be published in July on the UNDP procurement site (www.undp.un.hn/procesos_abiertos.htm) for installation of approximately 600 kilometers of Fiber Optic cable in three regions, as well as supply, installation, interconnection, start up training, commissioning and maintenance of the network. Post will monitor the invitation and bid process, and Foreign Commercial Service will submit the announcement through its Trade Leads Program.

¶4. (C) Because the most recent data will not be available until mid-2009, the audit does not cover the period of 2007, when many experts believe the gray

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trafficking reached its peak under Marcelo Chimirri's tenure as Hondutel Director. (Note: Chimirri's visa was revoked for reasons of public corruption under article 212(f) in late 2007, and there are pending foreign corrupt practices investigations at the U.S. Department of Justice relating to possible corruption that occurred between Hondutel and U.S. companies under his directives. End Note) Among the recommendations for technical improvements is the automation of billing and accounting procedures within Hondutel, which are currently open to significant manipulation because user minutes are logged by hand onto Excel spreadsheets. The report recommends instead that billing and accounting be handled by an independent accounting firm and taken out of the hands of Hondutel employees.

¶5. (C) The audit comes as political sources tell us that neither of the two competing versions of the controversial Telecommunications Reform Bill will make it back on the Congressional agenda any time soon (Reftel B).

Post has passed the version we see as more "CAFTA compliant" to several key congressman. A member of the Congressional telecom committee said publicly this week that Congressional leadership is keeping the "hot potato" off the agenda. Separately, Marcia Villeda, a close associate of Congressional President (speaker) Roberto Micheletti and self-professed supporter of telecom liberalization, urged post this week to lobby Micheletti to not move forward with the bill until after the November Presidential primary elections. Her reasoning was that in the current climate, in which Micheletti needs the support of the Jaime Rosenthal political machine for his run for the Liberal Party Presidential nomination, Rassel Tome (former Rosenthal family lawyer, head of the National Telecom Commission (CONATEL), a Congressional candidate on Micheletti's ticket and a persistent opponent of market opening) has too much influence over the bill. Jose Azcona, a politically-motivated ally of Micheletti who understands CAFTA, told us he sees a lack of strategic

vision in either bill, reflecting an absence of social consensus on where to go with telecom reform. He also opined it would be better not to pass a bill this year, saying he would rather wait for consensus of true market opening.

¶6. (C) Comment: Although the Hondutel audit was funded by the World Bank in order to assist the GOH to complete its own anti-corruption plan, post is bracing for a massive public relations attack against auditors, the World Bank and possibly the TSC. A June audit of two contracts for electricity generation, also funded by the World Bank as part of the GOH anti-corruption plan, prompted vicious attacks by high-level GOH personnel against the World Bank and TSC. Post is prepared to publicly defend the independent audit process, pointing out that the GOH volunteered to independent audits of its public enterprises as part of its own anti-corruption plan. We also hope the TSC and others will underscore the negative effects of high international call rates on the poor of Honduras. We do not expect the release of the audit to have an appreciable impact on political will to pass telecommunications reform, but it will serve to substantiate long-running allegations of rampant corruption and lack of reforms at Hondutel. End Comment.
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